Best's Rating Report

BANNER. WILLIAM PENN.
YOUR COMPANY FOR LIFE.

Banner Home Office
3275 Bennett Creek Avenue
Frederick, Maryland 21704

William Penn Home Office
100 Quentin Roosevelt Boulevard
Garden City, NY 11530

Financial Strength Rating
A.M. BEST
A+ Superior

A+

Ultimate Parent:
Legal & General Group plc
BANNER LIFE INSURANCE COMPANY

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Frederick, MD 21704
Web: www.lgamerica.com

Tel: 301-279-4800 **Fax: 301-279-4178**
AMB#: 006468 **NAIC#: 94250**
Ultimate Parent#: 086120 **FEIN#: 52-1236145**

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the company and its major affiliated life/health companies, the company is assigned a Best's Financial Strength Rating of A+ (Superior). The company's Financial Size Category is Class IX.

RATING RATIONALE

The following text is derived from the report of Legal & General America Group.

Rating Rationale: The rating of Banner Life Insurance Company and its wholly owned subsidiary, William Penn Life Insurance Company of New York — referred to as Legal and General America, Inc. (LGA), reflects the strategic and financial benefits derived from its ultimate parent, Legal and General, plc (L&G). The rating also reflects LGA's profitable operating performance on a U.S. GAAP and International Financial Reporting Standards (IFRS) basis, high quality investment portfolio and adequate level of stand-alone consolidated risk-adjusted capitalization that has been supported by reserve securitizations and periodic financial support from L&G. Partially offsetting these strengths are LGA's limited business profile, ongoing overall statutory earnings volatility resulting from Regulation XXX reserving requirements and the challenging environment for funding XXX reserves.

LGA represents the strategically important U.S. operations of L&G, a worldwide insurance organization and leading provider of risk, savings and investment management products headquartered in London, England. LGA currently maintains a strong competitive position in the term life market with a top 15 ranking as measured by new business annualized premium. Sophisticated administrative and underwriting platforms, along with a variable cost distribution system support LGA's efficient expense structure and make it a low-cost manufacturer. LGA has consistently been profitable on a GAAP and IFRS basis, and its consolidated risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR) model, is more than adequate for its current insurance and investment risks. LGA's consolidated risk-adjusted capitalization is enhanced by a high quality fixed-income investment portfolio that has performed reasonably well and is currently in a large unrealized gain position. LGA has modest exposure to structured securities — asset-backed securities, commercial mortgage-backed securities and non-agency residential mortgage-backed securities — representing slightly more than ten percent of the total portfolio, and has minimal exposure to subprime collateral. LGA has no exposure to direct commercial mortgage loans or equity real estate. In order to finance XXX reserve requirements, LGA has successfully raised a total of more than $3.2 billion through securitizations, letters of credit (LOC), surplus notes and surplus relief reinsurance. In addition, L&G has provided capital when needed and has recently begun to utilize its own balance sheet strength to internally finance LGA's excess reserves.

LGA's business profile is heavily concentrated in the highly competitive and commoditized term life market. To mitigate this business concentration risk and to further diversify earnings, LGA has recently extended its expertise into the universal life market. LGA's consolidated statutory net operating performance has fluctuated in recent years as new business reserve strain has been held until the XXX reserves could be ceded to a captive reinsurer. A.M. Best expects LGA to continue to experience volatile statutory net operating results as the XXX transactions — while having a positive impact on surplus — do not eliminate the negative impact of XXX reserve strain on statutory net operating performance. A.M. Best notes that in 2009, LGA executed a first of its kind prospective transaction (the reserve strain is ceded as the business is sold), which has had a more favorable impact on its statutory net operating performance. LGA's results are also subject to volatility from mortality as a result of its concentration in mortality risk. For the most part, LGA's mortality experience has historically been in-line with expectations. Finally, the current market conditions have made it an industry-wide challenge to obtain financing for XXX reserves and have also driven up the cost of capital significantly. Despite these challenges, LGA has been successful in funding its new business. A.M. Best notes that LGA's current new business is being funded internally through L&G. A.M. Best also notes that should the current market conditions persist, LGA may be challenged to find suitable, cost-effective financing and re-financing alternatives for funding its redundant reserves going forward. In response, LGA is exploring further utilization of L&G reinsurance solutions in addition to available third-party solutions.

Best's Financial Strength Rating: A+ **Outlook: Stable**

KEY FINANCIAL INDICATORS ($000)

Year	Assets	Total Capital Capital Surplus Funds	Condit'l Reserve Funds	Net Premiums Written	Net Invest Income	Net Income
2006	1,226,386	183,196	4,695	245,205	50,300	-43,874
2007	1,293,366	225,446	2,320	106,519	48,706	-476,605
2008	1,335,175	211,272	217	194,558	47,757	-16,081
2009	1,414,139	311,310	984	206,161	73,207	101,261
2010	1,918,463	675,476	2,351	81,445	55,410	26,689

BUSINESS REVIEW

The following text is derived from the report of Legal & General America Group.

Banner Life Insurance Company (Banner Life) and its wholly-owned subsidiary, William Penn Life Insurance Company of New York (William Penn - NY), are the principal direct operating subsidiaries of Legal & General America, Inc (LGA), an intermediate holding company. Banner Life and William Penn - NY operate predominately in the individual traditional life, annuity and universal life markets. These products are distributed primarily through licensed brokerage firms. LGA, through Banner Life and William Penn - NY, is licensed to transact business in all 50 states and the District of Columbia. LGA is ultimately owned by Legal & General Group, Plc (L&G), a United Kingdom company founded in 1836 with a diverse business profile which includes pensions, accident, life, and general insurance.

Other operating entities of LGA consist of Banner Life's wholly-owned special purpose financial captive subsidiaries: First British American Reinsurance Company (FBARC); First British American Reinsurance Company II (FBARC II); First British Bermuda Reinsurance Company, Ltd. (FBBRC); First British Bermuda Reinsurance Company II, Ltd. (FBBRC II); and the recently formed First British Vermont Reinsurance Company (FBVRC). LGA's operating profile of focusing on growing sales of its guaranteed level premium term life insurance typically results in significant statutory surplus strain due to Regulation XXX reserving requirements. In response to the effects of Regulation XXX, LGA has completed two public and two private capital market transactions to fund its significant redundant reserve capital requirements. FBARC and FBARC II are public U.S. domiciled (South Carolina) special purpose financial captives created for the purpose of reinsuring blocks of business from both Banner Life and William Penn - NY and funding the term life reserves through securitizations. In 2007, LGA set up a private Bermuda captive reinsurance company, FBBRC, which obtained a 30-year letter of credit (LOC) to collateralize redundant reserves. In 2009, LGA set up another private Bermuda captive reinsurance company, FBBRC II, which obtained a 10 year LOC to collateralize redundant reserves. The LOC solutions provide diversification to the securitization model with a long-term, fixed, low-cost source of capital. Effective October 1, 2010, a reinsurance contract ceding Banner Life's guaranteed level premium term life business issued June 15, 2010 through December 31, 2011 was established with newly formed public U.S. domiciled (Vermont) special purpose financial captive, FBVRC. L&G is committed to funding the Regulation XXX reserving requirements at FBVRC.

Effective December 29, 2010, the direct operating subsidiaries of LGA novated their reinsurance agreement with FBARC to Legal and General Assurance Society, Ltd. (LGAS), a direct wholly-owned subsidiary of L&G. As part of the novation, FBARC was completely discharged from all liabilities and obligations under the reinsurance agreements, and LGA's direct operating companies received full and final settlement of their experience accounts with FBARC.

Recently, Banner Life and William Penn - NY executed a rebranding strategy to market all of its products under the unified Legal & General America brand, leveraging the ultimate parent's brand name in the United Kingdom. LGA operates predominately in the term life insurance market and has been successful in achieving a major position in the high net worth segment. Prior to 1998, LGA's business was predominately permanent insurance (whole life and universal life) written through a wide variety of distribution systems to the lower and middle income marketplace. Since that time, LGA has implemented a strategy focused on fully underwritten level premium term life, targeting higher socio-economic groups through independent life brokerage distribution.

LGA's life insurance product portfolio includes renewable and convertible term life insurance to age 95 with guaranteed level premiums for 10-, 15-, 20-, and 30-years. The term life product portfolio also includes a life value term 20 and a life value term 30 product with both having level death benefits and coverage to age

95. Initial premiums are lower than traditional level term life insurance products. Premiums increase annually during the term period and are guaranteed.

To mitigate its business concentration risk in the term life market and to capitalize on its underwriting and investment expertise as well as its leverage in the brokerage distribution channel, LGA has recently expanded its insurance product portfolio to include universal life products. The universal life products are designed to target death benefit sales and avoid sales based on financial arbitrage in the premium-financing market. LGA's "LifeChoice UL" product is a flexible premium plan that provides lifetime guaranteed coverage with provisions for guaranteed cash values. "LifeChoice UL" benefits include: a lifetime guarantee that allows the policyholder the option to pay a level premium to guarantee the coverage for an entire lifetime; short pay guarantee that allows the policyholder the ability to design a premium payment schedule over a select number of years to guarantee lifetime coverage; and a guaranteed cash value option whereby the lifetime premium not only guarantees coverage but cash value to the policy.

LGA markets its products through independent brokerage agencies and has a professional relationship with the National Association of Independent Life Brokerage Agencies (NAILBA). LGA is currently the only life insurance entity that distributes predominately through the National Association of Independent Life Brokerage Agencies (NAILBA). Through its relationship with NAILBA, LGA life insurance products are sold through twelve marketing groups with approximately 300 member agencies. Additionally, LGA's products are marketed through almost 60 other independent brokerage general agencies.

LGA has invested in technology to drive down operating costs, allowing it to become a low-cost and more efficient provider of mortality risk products. Banner Life and William Penn - NY maintain separate offices in Frederick, Maryland, and Garden City, New York, respectively, but share the same data and administrative systems. This allows both companies to benefit from the significant investment in technology and to mitigate the risks of operating in a single location. In addition, all functions have been consolidated at the senior management level.

EARNINGS

The following text is derived from the report of Legal & General America Group.

LGA's statutory net earnings have historically been pressured by new business expense strain. LGA's strategy of funding the Regulation XXX portion of the term life reserves through the capital markets has resulted in volatile statutory net operating and total capital results as Banner Life and William Penn - NY both absorb the full strain of the new business. Statutory Accounting Principles (SAP) require that the surplus relief benefit provided by in force Regulation XXX financing transactions be recorded directly to surplus (SAP A-791). Since the benefit is excluded from net income, the in force transactions do not positively impact statutory operating performance.

LGA's 2010 consolidated statutory net operating gain was impacted by a decrease in premium income which was due to an overall increase in premiums ceded through its reinsurance activities. In 2009, the consolidated statutory net operating gain was impacted primarily by a decrease in reserves due to surplus relief transactions and a change from the 2001 CSO Mortality Table (single class) to the 2001 CSO Preferred Class Structured Mortality Table, which resulted in a decrease in life policy reserves.

LGA's consolidated GAAP net income was $67 million in 2010 compared to $88 million the previous year. Gross premium revenue for 2010 was $768 million, a slight increase over the previous year.

CAPITALIZATION

The following text is derived from the report of Legal & General America Group.

LGA's consolidated risk-adjusted capitalization as measured by the Best's Capital Adequacy Ratio (BCAR) model is more than adequate to support current business and investment risks. However, LGA's capital position can be somewhat volatile due to the lumpy nature of the surplus relief provided by its approach to funding the Regulation XXX reserve requirements associated with its term life business. LGA also benefits from the financial strength of its ultimate parent, L&G, which has from time to time made capital contributions to Banner Life and William Penn - NY. Since 2006, L&G has made capital contributions in excess of $500 million. Neither Banner Life nor William Penn - NY have capital notes or other forms of debt.

LGA's operating profile of focusing on fully underwritten level premium term life insurance results in significant statutory surplus strain due to the Regulation XXX reserving requirements. LGA has adopted a cost efficient and diversified capital markets approach to raising the surplus necessary to fund the reserve strain associated with its term life business. This approach minimizes the inherent credit risks associated with standard reinsurance. In order to maximize the cost benefit of the capital markets solution, LGA implements transactions when reserves are large enough to warrant the cost of the transaction. LGA's surplus is subject to additional strain in the form of unrealized losses on any special purpose captive reinsurer investment that is part of the solution since the reinsurer faces Regulation XXX strain and therefore recognizes significant anticipated losses in the early years of the treaty.

In 2010, LGA's total capital increased significantly impacted principally by capital contributions made to Banner Life as part of the novation of the FBARC reinsurance agreement to LGAS. Separate LGAS reinsurance agreements have been established for each of Banner Life and William Penn - NY. These reinsurance agreements have been amended to incorporate a funds withheld component based on an agreed upon economic reserve. These treaties will pay experience refunds back to Banner Life and William Penn - NY, eliminating the hold back provisions that were incorporated in the FBARC treaties.

On a GAAP basis, consolidated shareholders' equity was $2.0 billion at year-end 2010, an increase over the $1.6 billion recorded the previous year.

INVESTMENTS AND LIQUIDITY

The following text is derived from the report of Legal & General America Group.

LGA continues to maintain a high quality investment portfolio. The group's total consolidated invested assets increased measurably in 2010 primarily from new business growth and a large capital contribution made directly to Banner Life by its ultimate parent, L&G. LGA's invested assets are predominately long-term bonds that comprise approximately eighty percent of total invested assets. The company's remaining invested assets are comprised of common stock, contract loans, cash balances and short-term securities. LGA has no investments in direct mortgage loans or real estate assets. LGA's invested assets are managed by an affiliate, Legal and General Investment Management America Inc.

LGA's long-term bond portfolio is almost entirely investment grade, with modest levels of private placements thus providing excellent liquidity. The majority of LGA's invested assets are in NAIC class 1 holdings. A.M. Best notes that the company's absolute exposure to below investment grade bonds has increased the past several years, however, this exposure remains modest relative to total capital. LGA's consolidated long-term bond portfolio was in a large net unrealized gain position at year-end. LGA's long-term bond portfolio is invested primarily in publicly traded corporate obligations. A.M. Best also notes that LGA's exposure to structured securities is minimal, representing less than fifteen percent of the total long-term bond portfolio. The majority of LGA's mortgage-backed structured securities are invested in commercial mortgage-backed structured (CMBS) securities. The remainder of the mortgage-backed structured securities is invested principally in non-agency residential prime and modest levels of non-agency residential subprime holdings. LGA's CMBS portfolio, which at year-end was in a net unrealized gain position, is almost entirely invested in the highest-rated tranches, earlier vintages, and maintains a high degree of subordination. LGA has no credit default swaps, collateralized debt obligations, or collateralized loan obligations.

LGA's total common stock portfolio consists of investments in subsidiaries and a small portion of money market securities. The portfolio increased significantly in 2010 due principally to an increase in affiliated common stock. In 2010, Banner Life received a $362 million capital contribution from the ultimate parent. In turn, Banner Life contributed this capital to its wholly-owned subsidiary, FBARC.

The modest levels of separate account assets represent funds associated with variable life and variable annuity products and the funds held for the benefit of LGA's cash balance plan.

Asset/liability management (ALM) and cash flow analysis are integral parts of LGA's investment philosophy. These strategies provide management with detailed information on profitability and portfolio performance.

MANAGEMENT

Officers: President and Chief Executive Officer, James D. Atkins; Senior Vice President, Treasurer and Chief Financial Officer, Gene R. Gilbertson; Senior Vice President and Chief Actuary, David J. Orr; Senior Vice Presidents, Frank T. Gencarelli (Distribution and Marketing), Sharon P. Jenkins (Underwriting); Vice President, Secretary and General Counsel, Bryan R. Newcombe; Vice Presidents, Ross W. Baker (Corporate Tax), Randy W. Binger (Information Systems and Services), Patrick M. Bowen (Senior Account Manager), Patrick L. Dominick (Internal Audit), Barbara A. Esau (Human Resources), Eric W. Lester (Administrative Services), Andrew D. Love (Finance), Michael J. Moriarty (Corporate Actuary), Stephen C. Robinson (Senior Account Manager).

Directors: James D. Atkins (Chairman), Michael M. Cassell, Barbara A. Esau, Frank T. Gencarelli, Gene R. Gilbertson, Sharon P. Jenkins, David J. Orr, Leonard L. Reynolds, Thomas W. Walsh.

TERRITORY

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Balance Sheet
Assets ($000)

	12/31/2010
*Total bonds	$1,071,865
*Total common stocks	535,940
Contract loans	32,588
Cash & short-term inv	35,982
Prems and consids due	128,504
Accrued invest income	14,696
Other assets	73,744
Separate account bus	25,143
Assets	$1,918,463

Liabilities ($000)

Net policy reserves	$ 793,678
Policy claims	19,530
Deposit type contracts	6,774
Interest maint reserve	16,811
Comm taxes expenses	9,886
Asset val reserve	2,351
Funds held reinsurance	330,542
Other liabilities	38,271
Separate account bus	25,143
Total Liabilities	$1,242,987
Common stock	2,800
Preferred stock	665
Paid in & contrib surpl	913,105
Unassigned surplus	-250,241
Other surplus	9,147
Total	$1,918,463

*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners.

Why is this *Best's*® *Rating Report* important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Best's Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of an insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Financial Strength Rating is assigned after a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

Best's Financial Strength Ratings are assigned according to the following scale:

Secure Best's Financial Strength Ratings

A++ and A+	Superior
A and A-	Excellent
B++ and B+	Good

Vulnerable Best's Financial Strength Ratings

B and B-	Fair
C++ and C+	Marginal
C and C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

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